



# Mount Pleasant- Blythedale Union Free School District

## Short-Term Borrowing and Purchasing Report of Examination

Period Covered:

July 1, 2014 – October 30, 2015

2015M-365



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

March 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Mount Pleasant-Blythedale Union Free School District, entitled Short-Term Borrowing and Purchasing. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*



# State of New York Office of the State Comptroller

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## EXECUTIVE SUMMARY

The Mount Pleasant-Blythedale Union Free School District (District), is governed by the Board of Education (Board), which is composed of nine appointed members.<sup>1</sup> The District is a special act school district created by the New York State Legislature in 1972 to provide educational services to special needs students and operates in accordance with provisions of New York State Education Law. The Board is responsible for the general management and control of District financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates one school with approximately 130 current students and 59 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$6.8 million, which are funded primarily by tuition charged to students' home school districts and/or counties of residency. The New York State Education Department Rate Setting Unit establishes and the New York State Division of Budget approves the rates the District may bill each district or county.

### **Scope and Objective**

The objective of our audit was to review the District's short-term borrowing and internal controls over purchasing for the period July 1, 2014 through October 30, 2015. To review interest expense, we extended our scope back to July 1, 2012. Our audit addressed the following related questions:

- Could District officials achieve cost savings by changing short-term borrowing practices?
- Does the District properly use purchase orders to ensure that goods and services procured are necessary and reasonable for District operations?

### **Audit Results**

District officials issued a \$500,000 revenue anticipation note (RAN) in 2014-15 with a 2.89 percent interest rate, renewable in two years. Prior to 2012-13, District officials used RAN proceeds to improve short-term cash flow. However, since 2012-13 the District has had sufficient cash flow and did not need to use any RAN proceeds to fund its short-term cash needs. Even though District officials did not use the RAN proceeds, the District incurred annual interest expense on the borrowed funds.

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<sup>1</sup> One Board member position is currently vacant.

The District could have saved \$43,270 in short-term borrowing interest expenditures from 2012-13 through 2014-15. The District will incur another \$14,450 in such expenditures in 2015-16. If the Board had issued a RAN only when needed (to improve the District's short-term cash flow), it could have saved a total of \$57,720 in interest expenditures over these four fiscal years. As a result, the District incurred interest expenditures that could have been used to fund other District needs.

District officials need to issue purchase orders in a timely manner to ensure that goods and services purchased are necessary and reasonable for District operations. We found 15 instances where purchase orders totaling approximately \$81,000 were issued after the goods and services were obtained. Because staff did not follow the District's purchasing procedures, there is an increased risk that staff could make inappropriate purchases and more could be paid than necessary for goods and services.

### **Comments of District Officials**

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

# Introduction

## Background

The Mount Pleasant-Blythedale Union Free School District (District) is located in the Town of Mount Pleasant in Westchester County. The District is a special act school district created by the New York State Legislature in 1972 to provide educational services to special needs students and operates in accordance with provisions of New York State Education Law.

The District is governed by the Board of Education (Board), which is composed of nine members.<sup>2</sup> Six are appointed by the Blythedale Children's Hospital (Hospital) and two are public members appointed by the New York State Commissioner of Education. The Board is responsible for general management and control of District financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates one school with approximately 130 current students and 59 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$6.8 million, which are funded primarily by tuition charged to students' home school districts and/or counties of residency. The New York State Education Department (SED) Rate Setting Unit establishes and the New York State Division of Budget approves the rates the District may bill each district or county.

## Objective

The objective of our audit was to review the District's short-term borrowing and internal controls over purchasing. Our audit addressed the following related questions:

- Could District officials achieve cost savings by changing short-term borrowing practices?
- Does the District properly use purchase orders to ensure that goods and services procured are necessary and reasonable for District operations?

## Scope and Methodology

We examined District's short-term borrowing and purchasing procedures for the period July 1, 2014 through October 30, 2015. To review interest expense, we extended our scope back to July 1, 2012.

<sup>2</sup> One Board member position is currently vacant.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

**Comments of  
District Officials and  
Corrective Action**

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

## Short-Term Borrowing

A revenue anticipation note (RAN) is a short-term debt instrument issued in anticipation of certain future revenues. The note must be redeemed by repaying principal and interest to the financing institution within one year and generally may be renewed for up to two years. The purpose of a RAN is to improve cash flow in the short term. RANs can be issued only in the fiscal year in which the specific revenue is expected to be collected or received.

In 2014-15, District officials issued a \$500,000 RAN, which had an interest rate of 2.89 percent, renewable in two years. Prior to 2012-13, District officials used RAN proceeds to improve short-term cash flow. However, since 2012-13 the District has had sufficient cash flow and did not need to use any RAN proceeds to fund its short-term cash needs. Even though District officials did not use the RAN proceeds, the District incurred annual interest expense on the borrowed funds.

The District could have saved \$43,270, or approximately \$14,400 each year from 2012-13 through 2014-15, had a RAN not been issued when the funds were not needed. District officials do not expect to use RAN proceeds during 2015-16 and a \$14,450 interest payment is due in March 2016. As a result, the District could have saved a total of \$57,720 in RAN related interest expenditures over these four fiscal years.

District officials told us that due to the rate setting methodology used by SED, if the District carries a fund balance, the tuition rate charged per student would be lower resulting in less revenue. Therefore, officials issue a RAN each year in case of cash flow problems, which gives the Board the assurance that all expenditures will be paid on time if there were a sudden decrease in enrollment, untimely tuition payments or an emergency expenditure.

District officials told us that they have taken a number of steps to offset an already low reimbursement rate by no longer employing teacher assistants and cutting costs whenever possible. According to District officials, the Board felt the need to renew the RAN each year because the District received only one response to its requests for proposals for the RAN and Board members were unsure that the District would be able to secure such short-term borrowing if needed.

Because the Board issued a RAN when the District did not need funding, the District incurred interest expenditures that could have been used to fund other District needs.

**Recommendation**

The Board should:

1. Issue a RAN only when the District needs funds to improve short-term cash flow.

## Purchasing

Purchase orders should be issued prior to purchasing goods or receiving services. Using purchase orders help control expenditures by ensuring that purchases are properly authorized and preapproved and that adequate funding is available. A confirming purchase order is a purchase order issued after goods or services have already been ordered or received. District officials must control and limit the use of confirming purchases because such purchases circumvent the purchasing process approval and price verification. There is limited assurance that confirming purchases are made at the best price and quality and are for authorized District purposes.

According to the District's purchasing rules and regulations, no purchase order can, or will, be executed without a properly filled out and approved requisition. All requisitions must be approved by the District Principal (Principal) and the Superintendent and then forwarded to the finance office for a purchase order to be generated and the order placed. The District has a partially manual purchase order system that requires requisitions to be completed and approved by the Principal and Superintendent and documented by their signatures. The requisitions are then forwarded to the finance office's account clerk and entered into the District's financial software. A purchase order is computer-generated and signed by the purchasing agent and the Superintendent before the order is placed.

District officials need to issue purchase orders in a timely manner to ensure that the goods and services purchased are necessary and reasonable for District operations. We reviewed 35 payment vouchers totaling \$232,700.<sup>3</sup> Fifteen of these payments totaling \$81,000 (43 percent) were confirming purchase orders, issued after the goods or services were ordered or received. Five of these purchase orders totaling \$55,674 were issued because the Hospital contracted for services on the District's behalf and the service provider billed both the Hospital and the District. For two such purchase orders totaling \$17,783, District officials did not complete purchase orders before receiving the bills for contracted services. The remaining eight totaling \$7,553 resulted from an accounting system timing issue. Although all of these purchases appeared to be reasonable and for valid District expenditures, the use of confirming purchase orders circumvents the internal controls over the purchasing process and weakens the procurement process.

<sup>3</sup> See Appendix B for more information on our sampling methodology.

District officials told us that the finance office's small size creates a timing issue when entering purchase orders into the system. To solve this issue they plan to computerize the entire purchasing process and provide training to those employees who purchase goods and services for the District.

If the Board chooses to permit staff to use confirming purchase orders, it should amend the District's purchasing policy to provide guidance to staff for determining when confirming purchase orders should be used (e.g., emergency situations) and the type of documentation needed to support the purchases. By not following the District's procedures, there is an increased risk that staff could make inappropriate purchases and more could be paid than necessary for goods and services.

**Recommendation**

The Board should:

2. Ensure that staff members comply with the District's purchasing rules and regulations by preparing purchase orders in advance of any purchase and limiting the use of confirming purchase orders to emergency situations.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following pages.



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March 4, 2016

Ms. Tenneh Blamah, Chief Examiner  
Office of the State Comptroller  
Newburgh Regional Office  
33 Airport Center Drive,  
Suite 103,  
New Windsor, NY 12553

Re: Report of Examination 2015M-365

Dear Ms. Blamah:

Please accept this letter as a combined **Response and Corrective Action Plan (CAP)** for the report "Short-Term Borrowing and Purchasing", Mt. Pleasant Blythedale UFSD, July 1, 2014 through October 30, 2015.

The District thanks the OSC's auditors for their thorough review and thoughtful recommendations.

**Recommendation**

*The Board should:*

*Issue a RAN only when the District needs funds to improve short-term cash flow.*

The Audit Report notes that the District's practices in issuing Revenue Anticipation Notes ("RANs") has resulted in the payment of financing costs, including interest, of approximately \$14,000.00 for each of several recent school years.

These RANs have been issued in light of uncertainty in the timing of the receipt of revenues during the course of the school year and are reasonably calculated to assure that the full annual budgeted amount of appropriations may be expended during the school district fiscal year. The justification of the use and length of the note issuance is consistent with the requirements of Section 25.00 of the New York State Local Finance Law and the cumulative cash flow deficit calculations are consistent with the arbitrage requirements of federal law. To meet the Board's fiduciary duties to the District and its students, the current practices are warranted. To suffer unanticipated delayed revenue payments that would require a budget reduction prior to the end of the school year and the attendant future years' losses of state funding under the State's rate setting methodology for Special Act School Districts more than justifies the expenses incurred.

## **Purchasing**

*The Board should:*

*Ensure that staff members comply with the District's purchasing rules and regulations by preparing purchase orders in advance of any purchase and limiting the use of confirming purchase orders to emergency situations.*

The District strives to improve the issuance of purchase orders ahead of the receipt of the goods or services. The Mt Pleasant Blythedale UFSD is considering an amendment to the procurement policy to create limited exceptions for the receipt of certain goods ahead of the issuance of the purchase order. However, it is important to note that no payment is ever made upon purchase orders until justified through the claims auditor's proceedings and no check is issued without the prior approval of the District's claims auditor.

Mt. Pleasant Blythedale UFSD appreciates and values the opinions of the Office of the Comptroller. The recommendations of this report have been given thoughtful consideration and will be implemented as described above.

Sincerely,

Ellen Bergman, Ed. D.  
Superintendent of Schools

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

To achieve our audit objectives and obtain valid evidence, we performed the following procedures:

- We interviewed District officials about the RAN and procurement process and reviewed Board minutes for approval of RAN thresholds.
- We calculated the District’s annual interest expenditures on the borrowed funds through March 2016 to determine the amount of cost savings that could be achieved if the RAN had not been issued when the funds were not needed.
- We judgmentally selected a sample of 35 vouchers, from a total of 391 vouchers issued for 140 vendors during the audit period, by removing payroll, payroll taxes and most recurring payments from the District’s disbursement data. We reviewed the resulting list and selected those vouchers with high dollar payments and any vendors that appeared “non-ordinary” in nature. We included one travel reimbursement for administrative staff in our sample.
- We reviewed the 35 selected vouchers by comparing invoice dates with purchase order dates and determining if the amounts paid for the items purchased were reasonable and for valid District purposes.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX C

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